TwentyFour ASSET MANAGEMENT

UK Mortgages Limited

28 May 2021

UK Mortgages Limited is a LSE-quoted listed closed-ended fund managed by TwentyFour Asset Management LLP.

Commentary

Mortgage and Housing Market

The ongoing generally positive tone in housing markets continued over the last month, albeit one or two pieces of balancing data did possibly begin to emerge. HMRC reported UK residential transactions in the year to May up 138%, with the BoE reporting mortgage advances jumped 27% in a year due to another rise in mortgage approvals in April. Meanwhile, the property consultancy JLL predicted the highest grossing quarter in UK residential market history from June to August at an estimated £107bn. Furthermore, RICS noted the gap between demand and supply is at its widest since 2013, with surveyors reporting an increase in new buyer inquiries and a fall in the number of new listings.

For house prices, Rightmove reported the average UK house price grew by over £2,500 in May, with a record 37% of homes in England and Wales achieving their asking price or more compared to 28% a year previously and the long-term average of 23%. Halifax also reported house prices grew at their most robust pace in almost seven years. However, the ONS indicated a slowdown occurred during April, with buyer anxiety during the lead up to the original, but subsequently extended, deadline for stamp duty relief the possible cause. Data from Scotland, where the stamp duty holiday ended in March, supported the theory. Walker Fraser Steele reported transactions down by 35% in the month and a fall in prices. Finally, Hamptons said that renting a home is now typically cheaper than buying one, reversing the trend of the past six years.

RMBS Market

A steady flow of deals has recently characterised the UK RMBS market, with several regular issuers funding new lending, along with a number of older deals being called and refinanced. In addition, we also saw a rare and therefore heavily subscribed, small prime owner-occupied deal from Coventry Building Society. Almost all the activity was subject to strong investor demand, with pricing reaching new tight levels. Positive sentiment in secondary markets also prevailed, as the market shrugged off inflation concerns on the back of a lack of general availability of secondary bonds, albeit we did see a slight pickup in BWIC volume, but these experienced quite aggressive bid activity.

Fund Commentary

The second leg of the two Coventry portfolio sales was completed as expected at the end of May, leading to the second of the two previously announced tenders. The second tender, on identical terms to the first, with a value of £20m at a price of 75 pence per share, was also oversubscribed, with around 81.1m shares validly tendered for approx. 26.67m shares. Meanwhile, ongoing management of the portfolios continued, with a period of relative stability and gradual dividend cover growth expected through the summer. Completions in the second Keystone portfolio have continued at a very encouraging rate, growing by £34m in May – well ahead of the £25m-£30m monthly target range – to reach £82m and by the time of writing this had grown further to just over £110m. A surge of further completions is expected at the end of June to benefit from maximum Stamp Duty relief, which will then be tapered at half the current rate for the next three months before returning to normal in October.

Arrears in the TML portfolios ticked up marginally again in May. However, (as previously signalled), the team received confirmation during the last few days that the sale of the property behind the largest loan in arrears has now completed. The sale of that property alone will reduce the arrears in Barley Hill No.1 by approximately 0.75%.

Likewise, a further three arrears loans totalling almost the same amount again from across the two portfolios have either been sold or had their arrears balances cleared since the end of last month. Accordingly, progress toward restoring loans that fell into arrears during the pandemic to a more normalised state continues.

Finally, we have also seen a slight pickup in arrears in the Oat Hill portfolio over the last two months, with several loans previously benefitting from some level of forbearance now falling into the 3m+ bucket. CHL is actively servicing these loans, and we work with them to bring as many of these loans as possible back into compliance.

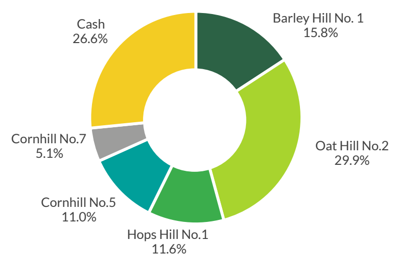
Investment Outlook

Asset performance across the ABS spectrum remains healthy and positive fundamentals prevail, supporting the asset class. Slightly lighter issuance through April and May has contributed to the strong technical currently prevalent in the market. Once the current pipeline, which should soak up some of the current demand, has been absorbed, the team expects a relatively quiet summer, which should continue to support spreads over the next few months.

Portfolio Summary	Buy-to-Let			Owner Occupied	
	Purchased	Forward Flow Originated			
	Oat Hill 2	Hops Hill 1	Cornhill 7	Barley Hill 1	Cornhill 5
Originator	Capital Home Loans	Keystone Property Finance		The Mortgage Lender	
Outstanding Balance	£459m	£399m	£82m	£118m	£228m
Number Accounts	3,596	1,795	275	741	1,187
Average Mortgage Size	£128k	£222k	£299k	£160k	£192k
WA Indexed LTV	60.68%	71.85%	71.95%	60.41%	66.34%
WA Interest Rate	1.37%	3.45%	3.44%	4.44%	3.89%
WA Remaining Term (mth)	107	259	283	270	300
WA Seasoning (mth)	172	13	1	34	17
3mth + Arrears (% balance)	1.42%	0.00%	0.00%	5.66%	1.00%

as at 28/05/2021

Investment breakdown



as at 28/05/2021

Fund Facts

Type of Fund:	Closed-ended Investment Scheme
Listing & Trading:	LSE Specialist Fund Market
ISA & SIPP Eligible:	Yes
Launch Date:	7th July 2015
Currency:	£ denominated
NAV Calculation:	As of the last business day of each month
Dealing:	Daily during LSE opening hours
Dividend:	Quarterly from April 2016
Market Capitalisation:*	£147.94mn
Shares in Issue:	205mn
Price per Share:*	72.00p
NAV per Share:*	79.66p
NAV per Share (inc Dividend):*	108.16p
Premium / (Discount) to NAV:*	-9.62%

Source: TwentyFour Asset Management. * as at 30/04/2021

Investment Objective

The Company aims to provide Shareholders with stable income returns through low leveraged exposure to portfolios of loans secured against UK residential property.

Investment Policy

The Company's investment policy is to invest in a diversified portfolio of UK residential mortgages.

- The Company will purchase legacy portfolios with strong observable performance histories or new portfolios with robust underwriting standards
- Primary origination mechanism may also be put in place
- Leverage will be used, initially via a banking facility, before fully securitized term structure put in place

This is only a summary; details of the Company's investment policy, including investment restrictions, are set out in the Prospectus.

IFRS 9

With regards to IFRS 9 – the company has been reporting its results in accordance with IFRS 9 since 1 July 2018. When making future loss provisions under IFRS 9 the low level of historic defaults in the UK mortgage sector and the credit protection afforded by the low LTV of the loans within our portfolio is factored into our provision calculations, along with the recent addition of mortgage payment holidays. The unaudited impact of IFRS 9 has been calculated at 1.22% on the Fund's NAV for the period ending 31 December 2020. The impact of expected credit losses is already modelled in the IRR calculations for our portfolios and is also included in our portfolio dividend and NAV models.

Glossary

BoE:	Bank of England
BTL:	Buy-to-Let
EPC:	Energy Performance Certificate
HMRC:	Her Majesty's Revenue and Customs
RICS:	Royal Institute of Chartered Surveyors
RMBS:	Residential Mortgage Backed Securities
ONS:	Office of National Statistics
TML:	The Mortgage Lender

Key Risks

- **All financial investment involves risk. The value of your investment isn't guaranteed, and its value and income will rise and fall. Investors may not get back the full amount invested.**
- Past performance is not a reliable indicator of future performance, and the Fund may not achieve its investment objective.
- The fund can invest in portfolios of mortgages or the equivalent risk. The lenders of such products may not receive in full the amounts owed to them by underlying borrowers, affecting the performance of the Fund.
- Prepayment risks also vary and can impact returns.
- The fund employs leverage, which may increase volatility of the Net Asset Value.

Trading Information

TIDM	UKML
ISIN	GG00BXDZMK63
SEDOL	BXDZMK6
AMC (%)	0.60

OCF Breakdown

UK Mortgages Ltd	0.85%
UK Mortgages DAC and SPVs (excl. servicing and transaction costs)	0.16%
Total	**1.01%**
Servicing and Transaction costs (for information)*	2.21%

*Servicing and transaction costs are provided for information only as deal specific servicing and other transaction costs are included in IRR projections per investment. As at 28/02/2021.

Fund Managers

Robert Ford
Partner, Portfolio Management, industry experience since 1986. Previously a Managing Director and Head of European ABS Trading at Barclays Capital.

Ben Hayward
Partner, Portfolio Management, industry experience since 1998. Previously he was a senior fund manager to four portfolios at Citi Alternatives.

Douglas Charleston
Portfolio Management, industry experience since 2006. Previous roles include structuring ABS at Lloyds, ratings analyst at S&P and a portfolio manager at Nationwide.

Silvia Piva
Portfolio Management, industry experience since 2007. Previously she was a structurer and originator at RBS covering UK financial institutions.

Shilpa Pathak
Portfolio Assistant, industry experience since 2013. Previous roles include an application development consultant at Dow Jones and a software developer at Dell.

Further Information

TwentyFour AM
John Magrath
Tel. 020 7015 8912
john.magrath@twentyfouram.com

Numis Securities
Chris Gook
Tel. 020 7260 1378
c.gook@numis.com